BF

TO: Distribution September 24, 1997

FROM: BF/Director, Financial Management Division

SUBJECT: Agency Overhead Rate

Over the last year, we have been discussing alternative approaches to the way NASA calculates overhead for reimbursable agreements. In our memorandum dated March 19, 1997, we outlined a proposal for a single, Agencywide overhead rate. This rate would replace the Center overhead rates, the Headquarters overhead rate, and the 15% administrative fee for travel-only agreements.

At last May's CFO conference, we discussed this proposal in a breakout session of the Deputy Chief Financial Officers for Finance. In that session, we concluded that the proposal should be implemented. In reaching this conclusion, we considered the following information:

- Overhead costs are not currently being allocated to reimbursable agreements in an equitable manner. Under existing FMM 9090 policies, the allocation base is civil service labor costs. Since contract costs are not included in this base, agreements performed by contractors receive no allocations while agreements performed by civil servants receive unreasonably high allocations. Under the Agency overhead proposal, contract costs will be included in the allocation base.

- For the following reasons, overhead rates calculated under existing FMM 9090 policies are misleading:

    - Contracts are sometimes funded by one Center but performed at another Center. Although these contracts help drive the overhead costs at the Center where the work is performed, the contracts are not reflected in that Center's allocation base.

    - Overhead-type items are funded differently throughout the Agency. Items may be funded by "Center support" accounts at one Center and by "program support" accounts at another.

    - Some Centers have higher proportions of contractors and other tenants (relative to civil servants). Although these tenants help drive overhead costs at the Center, they are not reflected in the allocation base.

Under the Agency overhead proposal, these issues will be resolved because a single, composite rate is calculated for the entire Agency.

- Effective this fiscal year, agencies are expected to report the full costs of providing goods and services to customer agencies. (Statement of Federal Financial Accounting Standards (SFFAS) No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, para. 108). And next fiscal year, agencies will be required to disclose the differences between full costs and the prices charged to Federal and non-Federal customers (SFFAS No. 7, Accounting for Revenue and Other Financing Sources, para. 46). Since current FMM 9090 policies do not result in equitable allocations of overhead, the reliability of full cost reporting under such policies could be questioned. An Agency overhead rate should result in more reliable full cost reporting.

It should be noted that some changes have been made to the proposal outlined in our March 19, 1997, memo. These changes were necessary as a result of our review of the Center responses we received, additional study of the proposal, and further discussions with the DCFOs for Finance. The most significant change is that both fringe benefits and Agency overhead will now be calculated on every agreement. (NOTE: Fringe benefits do not need to be calculated for agreements that have no direct civil service labor.) This change was necessary to prevent double allocation of fringe benefits on Commercial Space Launch Act agreements. Another change is that “total cost input” will now be used as the allocation base rather than total direct costs. (“Total cost input” is all direct costs, fringe benefits, and contract administration.) This change was necessary to be consistent with the way the Agency overhead rate is calculated.

The Agency overhead rate should be used to calculate the full costs of agreements either negotiated and/or signed on or after October 1, 1997. A revised FMM 9090 reflecting these changes will be issued, by December 31, 1997. Enclosure 1 provides draft revisions to the key sections and appendixes of FMM 9090 that will be revised.

The annual Agency overhead rate and related “Breakdown of Agency Overhead Pool by Fund Source” will be issued by August 31 of each year by Code BF. Both will be calculated based on actual costs for the preceding 12 month period ending June 30. Enclosure 2 provides the Agency overhead rate and related “Breakdown of Agency Overhead Pool by Fund Source” to be used for fiscal year 1998. The enclosure also provides the fringe benefit rate to be used for fiscal year 1998.

Please contact Ben Varnell at 650-604-5310 or David Moede at 202-358-1032 if you have any questions.

Original Signed By!

Stephen J. Varholy

Enclosures

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cc:
HQ/B/Mr. Winter
HQ/B/Mr. Peterson

bcc:
BF/Reading File

9091-3 DEFINITIONS

For the purpose of this chapter, the following definitions are applicable:

REIMBURSABLE AGREEMENT. A binding order or agreement with a customer for NASA to sell or rent materials, equipment or services. A single agreement may include one or more orders.

FULL COST. All direct and indirect costs required to perform a reimbursable agreement.

DIRECT COST. A cost that can be specifically identified with or traced to a reimbursable agreement.

INDIRECT COST. A cost that cannot be identified with or traced to a reimbursable agreement.

ESTIMATED PRICE REPORT (EPR). Form used by Project Offices to document estimated agreement or order cost.

REIMBURSABLE AGREEMENT NUMBER (RAN). Unique numbers assigned either by NASA Headquarters, Code BF, or by Centers which serve as reimbursable agreement control numbers.

REIMBURSABLE BUDGETARY RESOURCES. Include (a) the amount of a valid obligation for a reimbursable order on the ordering account for a Federal agency customer, (b) the amount of cash advanced to NASA by a non-Federal customer accompanying a reimbursable order, or (c) as provided by law and approved by the CFO, the amount of a reimbursable order from a non-Federal customer which is not accompanied by an advance.

9091-5 COST PRINCIPLES

All new customer orders, including those under amended reimbursable customer agreements will recover full cost, except for written, legally permissible exceptions made by the CCFO or the Director, Financial Management Division. Such exceptions will be documented on EPRs and faxed the next business day to the Director, Financial Management Division. Full costs will be charged to the extent they can be reasonably determined, whether from the accounting system or through cost finding. Cost finding includes any reasonable technique for identifying costs that are not directly available in the NASA cost accounting system. Where cost accounting for individual RANs is not practical, a fixed price based on best estimates may be charged. The following types of cost should be charged.

DIRECT COSTS. These include the following:

Civil Service Labor. Costs (regular and overtime) are based upon direct program and program support (including engineering and technical base) labor charges that can be specifically identified to a reimbursable agreement.

Fringe Benefits. A fringe benefit rate will be applied to all agreements with civil service labor charges. This rate will be issued by Headquarters, Code BF by August 31 of each year based on actual cost data for the preceding 12 month period ending June 30. Fringe benefits will be separately identified on the EPRs and on the final cost reports for all agreements.

Civil Service Travel. Costs are based upon direct program and program support travel charges that can be specifically identified to a reimbursable agreement.

Contracts, Purchases, Grants, Materials, etc. Costs are based upon direct program and program support contracts, purchases, grants, materials etc. that can be specifically identified or traced to a reimbursable agreement. (Costs may be distributed from carrier accounts to an agreement.) Costs will be identified by fund source on the EPR.

INDIRECT COSTS. These include the following:

Agency Overhead. Represents an allocation of the costs incurred by NASA to operate and maintain the Agency regardless of the programs and projects carried out by the Agency. Agency overhead will be calculated in accordance with FMM Appendix 9091-5A. An annual rate will be issued by Headquarters, Code BF by August 31 of each year based on actual cost data for the preceding 12 month period ending June 30. A breakdown of the Agency overhead pool by fund source will also be included. This breakdown will be used to pro-rate overhead amounts between Headquarters and the performing Center by fund source. Amounts will be recorded on a pro-rated basis to FS 41, 42, and 43 reimbursable activity based on this breakdown. Corresponding offsets will be recorded to FS 41, 42 and 43 appropriated activity in the same manner. Centers may not incur obligations or process offsets against the Headquarters portion of the agency rate and must forward collections every quarter, by the On-line Payment and Collection (OPAC) to MSFC, Code BF01 (ALC 80-00-4901). A back-up detailed spreadsheet, which includes the RAN, reimbursable code, unique project number (UPN), program year that the collections are applicable to and the type of statistical cost (agency overhead or contract administration) should be E-mailed to the MSFC representative. MSFC, Code BF01, will be issued the reimbursable funding authority for the Headquarters portion of the agency overhead (as specified in the breakdown) and will apply the collections received as this funding is obligated.

Contract Administration. Represents an allocation of the costs incurred by NASA for contract administration services. Costs will be calculated based on a sliding scale using FMM Appendix 9091-5A. MSFC, Code BF01, will be issued funding authority for contract administration. Centers may not incur obligations against contract administration charges and must forward collections every quarter, by the On-line Payment and Collection (OPAC) to MSFC, Code BF01 (ALC 80-00-4901). A back-up detailed spreadsheet, which includes the RAN, reimbursable code, unique project number (UPN), program year that the collections are applicable to and the type of statistical cost (agency overhead or contract administration) should be E-mailed to the MSFC representative.

Depreciation. Centers will charge all non-Federal customers depreciation except for Landsat data agreements. Such charges should be calculated based on the specific plant and equipment used on the RAN. All collections of depreciation charges will be deposited to the miscellaneous receipts account (803220, General Fund Proprietary Receipts).

9151-5A INDIRECT COST CALCULATIONS

AGENCY OVERHEAD. Calculate for all Federal and non-Federal agreements. The Agency overhead rate is calculated by Headquarters, Code BF using actual cost data for the preceding 12 month period ending June 30 as follows:

Pool. Includes Agencywide non-reimbursable Civil Service labor (FS 41) and non-reimbursable travel cost (FS 42) for UPNs < 100, plus non-reimbursable ROS costs (FS 43). Also includes overhead costs charged to customers.

Base. Agencywide accrued expenditures less the amount calculated for the pool above. This is referred to as a "Total Cost Input" base.

Formula for Agency overhead rate (rounded to nearest whole percentage):

$$\frac{\text{Pool}}{\text{Base}}$$

Calculate Agency overhead under the full cost column of the EPR as follows:

Total Cost Input Base x Agency Overhead Rate = Calculated Agency Overhead Costs

Agency overhead should be separately identified on the EPRs, billings, and final cost reports.

9051-5B ESTIMATED PRICE REPORT FORMAT

ESTIMATED PRICE REPORT (Page 1 of 2)

Customer: ________________________ **UPN:** ______________
Customer Order Number: ___________________________________
Reimbursable Agreement Number: ___________________________

Cost Element	FS	Full Costs	Waived Costs	Price
Civil Service Labor:				
Direct Program	41			
Program Support	41			
Total Civil Service Labor	41			
Fringe Benefits @ 43%	41			
Civil Service Travel:				
Direct Program	42			
Program Support	42			
Total Civil Service Travel	42			
Contracts, Purchases, Grants, Materials etc:				
Direct Program	(Note 1)			
Program Support	(Note 1)			
Total Contracts, Purch, Materials etc.	(Note 1)			
Contract Administration	(Note 2)			
Subtotal				
Agency Overhead @ 6%	(Note 3)			
Depreciation	(Note 4)			
Total Full Cost				

Note 1. Show separate lines for each fund source as applicable.

Note 2. Recorded against applicable fund source by MSFC Code BF01.

Note 3. Pro-rate by fund source based on percentages issued annually by Code BF.

Note 4. Fund source not applicable. Collections for depreciation are deposited to the Treasury.

ESTIMATED PRICE REPORT (Page 2 of 2)

<u>Breakdown of Agency Overhead Pool by Fund Source:</u>

	Percent	Reimb.	Offset to Non-Reimb.
Headquarters FS 41*	18%		
Headquarters FS 42*	1%		
Headquarters FS 43*	10%		
Headquarters Total	**29%**		
Center FS 41	24%		
Center FS 42	1%		
Center FS 43	46%		
Center Total	**71%**		
Agency Total			

* MSFC, Code BF01 records and retains funding authority for these amounts.

<u>Basis for Exceptions from Full Cost</u>

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<u>Required Signatures</u>

Name/Title Signature/Date

____

Project Manager or HQ Program Office

____

Center Chief Financial Officer or HQ Director, Financial Management Division

FISCAL YEAR 1998 AGENCY OVERHEAD RATE, BREAKDOWN OF AGENCY OVERHEAD POOL BY FUND SOURCE, AND FRINGE BENEFIT RATE

Agency overhead rate: 6%

Breakdown of Agency overhead pool by fund source:

	Percent
Headquarters FS 41	18%
Headquarters FS 42	1%
Headquarters FS 43	10%
Total Headquarters	**29%**
Center FS 41	24%
Center FS 42	1%
Center FS 43	46%
Total Center	**71%**
Total Agency	**100%**

Fringe benefit rate: 43%

Example Estimated Price Report (Page 1 of 2):

Cost Element	FS	Full Costs	Waived Costs	Price
Civil Service Labor:				
Direct Program	41	25,000	0	25,000
Program Support	41	0	0	0
Total Civil Service Labor	41	25,000	0	25,000
Fringe Benefits @ 43%	41	10,750	0	10,750
Civil Service Travel:				
Direct Program	42	6,000	0	6,000
Program Support	42	0	0	0
Total Civil Service Travel	42	6,000	0	6,000
Contracts, Purch, Grants, Matls, etc:				
Direct Program	(Note 1)	560,000	0	560,000
Program Support	(Note 1)	0		0
Total Contracts, Purch, Grants, Matls, etc.	(Note 1)	560,000	0	560,000
Contract Administration	(Note 2)	4,000	0	4,000
Total Cost Input		605,750		605,750
Agency Overhead @ 6%	(Note 3)	36,345	0	36,345
Depreciation		0	0	0
Total		642,095	0	642,095

Example Estimated Price Report (Page 2 of 2):

			Offset to
	Percent	Reimb.	Non-Reimb.
Headquarters FS 41*	18%	6,542	-6,542
Headquarters FS 42*	1%	364	-364
Headquarters FS 43*	10%	3,635	-3,635
Headquarters Total	**29%**	**10,541**	**-10,541**
Center FS 41	24%	8,722	-8,722
Center FS 42	1%	364	-364
Center FS 43	46%	16,718	-16,718
Center Total	**71%**	**25,804**	**-25,804**
Agency Total	**100**	**36,345**	**-36,345**

* MSFC, Code BF01 records and retains funding authority for these amounts.